



OAK SHORES COMMUNITY ASSOCIATION

**Audit Report
Financial Statements
and
Supplemental Information
*December 31, 2021***

PORTER & LASIEWICZ, CPAs
Certified Public Accountants

Board of Directors and Members

Oak Shores Community Association
Bradley, CA

Independent Auditors' Report

Opinion

We have audited the accompanying financial statements of Oak Shores Community Association, a non-profit corporation, which comprise the balance sheet as of December 31, 2021, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oak Shores Community Association as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Oak Shores Community Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Oak Shores Community Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Oak Shores Community Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oak Shores Community Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information regarding replacement fund balances on page 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Revenues and Expenses – Budget and Actual on page 14 and the Summarized Schedule of Private Marina Activity on page 15 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we express no opinion on it.

Porter & Lasiewicz, CPAs

April 26, 2022

Simi Valley, California

Oak Shores Community Association

Balance Sheet

As of December 31, 2021

	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,045,455	\$ 2,578,095	\$ 3,623,550
Investments	-	298,300	298,300
Accounts Receivable, Net of Allowance for Bad Debts of \$10,000	16,804	-	16,804
Private Marina Receivable	1,995	-	1,995
Accrued Interest Receivable	-	2,095	2,095
Prepaid Insurance	54,009	-	54,009
Prepaid Income Taxes	10,535	-	10,535
Other Prepaid Expenses	21,962	-	21,962
Inventory	7,068	-	7,068
Deposit for Gate Property Purchase	30,000	-	30,000
Due to/from	(100,444)	100,444	-
Property and Equipment, Net of Accumulated Depreciation of \$302,828	497,267	-	497,267
Total Assets	\$ 1,584,651	\$ 2,978,934	\$ 4,563,585
 <u>LIABILITIES</u>			
Accounts Payable	\$ 42,178	\$ -	\$ 42,178
Accrued Payroll and Related Items	32,624	-	32,624
Prepaid Assessments	568,503	-	568,503
Other Liabilities	33,796	1,500	35,296
Total Liabilities	677,101	1,500	678,601
 <u>FUND BALANCES</u>			
Operating Fund Balance	907,550	-	907,550
Reserve Fund Balance	-	2,977,434	2,977,434
Total Fund Balance	907,550	2,977,434	3,884,984
Total Liabilities and Fund Balances	\$ 1,584,651	\$ 2,978,934	\$ 4,563,585

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Statement of Revenues and Expenses and Changes in Fund Balances

For the Year Ended December 31, 2021

	Operating Fund	Replacement Fund	Total Funds
<u>REVENUES</u>			
Regular Assessments	\$ 1,216,504	\$ 499,112	\$ 1,715,616
Special Assessment for Storm Damage Repairs	297,850	-	297,850
Interest and Dividend Income	96	9,618	9,714
Rubbish Fee Income	218,223	-	218,223
Owner Rental Fees	40,975	-	40,975
Fire Department Rental Fees	8,152	-	8,152
Watercraft Fees	27,020	-	27,020
Owner Fee Income	16,592	-	16,592
Committee Revenues	35,283	-	35,283
Lease Fees from Private Marina	67,196	-	67,196
Net gain on Sale of Foreclosed Property	9,918	-	9,918
Other Income	45,453	9,990	55,443
Total Revenues	1,983,262	518,720	2,501,982
<u>EXPENSES</u>			
General and Administrative Expenses			
Insurance	102,252	-	102,252
Legal Fees	50,029	-	50,029
Outside Services	51,051	-	51,051
Bad Debts	(1,700)	-	(1,700)
Audit and Accounting	9,000	-	9,000
Income Taxes	1,099	-	1,099
Printing and Reproduction	5,228	-	5,228
Other General and Administrative	68,679	-	68,679
Payroll and Related Costs			
Salaries	613,340	-	613,340
Payroll Taxes	50,474	-	50,474
Employee Benefits and Other Costs	88,654	-	88,654
Utilities			
Rubbish Service	218,912	-	218,912
Water and Fire Hydrants	192,489	-	192,489
Electricity and Propane	33,913	-	33,913
Telephone and Other	20,008	-	20,008
Depreciation	41,609	-	41,609
Committee Expenses	31,256	-	31,256
Private Marina Expenses	39,821	-	39,821
Transportation Costs	27,430	-	27,430
Maintenance and Repairs	63,208	-	63,208
Capital Spending	12,436	-	12,436
Storm Damage Repairs	297,850	-	297,850
Major Repairs and Replacements	-	93,363	93,363
Total Expenses	2,017,038	93,363	2,110,401
Excess (Deficiency) of Revenues Over Expenses	(33,776)	425,357	391,581
Fund Balances, Beginning of Year	936,570	2,552,077	3,488,647
Donations	4,756	-	4,756
Fund Balances, End of Year	\$ 907,550	\$ 2,977,434	\$ 3,884,984

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Statement of Cash Flows

For the Year Ended December 31, 2021

	Operating Fund	Replacement Fund	Total Funds
<u>Cash Flows From Operating Activities:</u>			
Excess (Deficiency) of Revenues Over Expenses	\$ (33,776)	\$ 425,357	\$ 391,581
<u>Adjustments to Reconcile (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:</u>			
Reduction in Allowance for Bad Debt	(1,701)	-	(1,701)
Depreciation expense and Accretion of interest	41,609	95	41,704
<u>Change in Assets and Liabilities:</u>			
Increase in Accounts Receivable	(6,825)	-	(6,825)
Increase in Private Marina Receivable	(1,835)	-	(1,835)
Decrease in Accrued Interest Receivables	-	832	832
Decrease in Prepaid Insurance	4,933	-	4,933
Increase in Prepaid Income Taxes	(1,277)	-	(1,277)
Decrease in Other Prepaid Expense	10,486	-	10,486
Decrease in Inventory	3,976	-	3,976
Increase (Decrease) in Accounts Payable	32,735	(44,217)	(11,482)
Increase in Accrued Payroll	1,774	-	1,774
Increase in Prepaid Assessments	93,650	-	93,650
(Decrease) in Other Liabilities	(416)	-	(416)
Other Decrease/(Increase) in Due to/from	(29,556)	29,556	-
Total Adjustments	147,553	(13,734)	133,819
Net Cash and Cash Equivalents Provided By Operations	113,777	411,623	525,400
<u>Cash Flows from Investing Activities:</u>			
Deposit for Purchase of Gate Property	(30,000)	-	(30,000)
Maturity of Investments	-	330,000	330,000
Net Cash and Cash Equivalents Provided (Used) By Investing Activities	(30,000)	330,000	300,000
<u>Cash Flows from Financing Activities:</u>			
Donations to Committees and Other	4,684	-	4,684
Borrowings from Reserves for Storm Damages	300,000	(300,000)	-
Borrowings from Reserves for Gate Property deposit	30,000	(30,000)	-
Partial repayment of Storm Damage loan	(200,000)	200,000	-
Cash and Cash Equivalents Provided (Used) By Financing Activities	134,684	(130,000)	4,684
Net Increase In Cash and Cash Equivalents	218,461	611,623	830,084
Cash and Cash Equivalents, Beginning of Year	826,994	1,966,472	2,793,466
Cash and Cash Equivalents, End of Year	\$ 1,045,455	\$ 2,578,095	\$ 3,623,550
<u>Supplemental Information:</u>			
Cash Paid for Income Taxes	\$ 2,312	\$ -	\$ -

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

The Oak Shores Community Association (the Association) was incorporated in May 1970. The Association is a common interest realty association and is responsible for the maintenance and operation of the common areas of an 851-lot planned development located on Lake Nacimiento in an unincorporated area of San Luis Obispo County near the town of Bradley, California. Assessments are levied semi-annually against each lot in the development.

The Association's Board of Directors is comprised of seven members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting for external financial reporting purposes. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association has segregated its activities into two funds: the Operating Fund and the Replacement Fund.

The Operating Fund accounts for all current operating transactions of the Association, including those of the committees and Private Marina. The Operating Fund includes equity of the controlled committees and the Private Marina.

The Replacement Fund accounts for member capital contributions which are accumulated in separate bank accounts to provide for the future repair and replacement of the Association's property, equipment, and common areas.

Committees

The combined financial statements include the accounts of the Association and the accounts of controlled committees and Private Marina that operate within the community. The controlled committees that operate within the community are:

Recreation Committee – The Recreation Committee is an organized group of volunteers who sponsor community events each year including the Fireman's Ball, the July 4th Pancake Breakfast, the Labor Day Barbeque, the Memorial Day Celebration, the Halloween Party, the Christmas Party, and the New Year's Eve Party. Funds are raised in these events from donations for food, drinks, and entertainment. The Recreation Committee also operates soda and ice vending machines at the clubhouse.

Surplus funds from community events and operation of the vending machines are accumulated, and at the discretion of Recreation Committee may be used to purchase furniture and equipment for the community, to make improvements to community property, or as in 2018, \$4,400 was raised and contributed to NRWMAC (Nacimiento Regional Water Management Advisory Committee) to support its goal to maximize water levels in Lake Nacimiento throughout the summer.

Logos/The Corner Store – In early 2021, a new group of volunteers began to manage the Logos gift store and much of the old Logos inventory was liquidated over a period of months. In May 2021, Logos changed its name to "The Corner Store", and it reopened as a new retail gift store but still operating at the back of the clubhouse. The Corner Store sells Lake Nacimiento themed shirts/sweats, hats, stickers, and other merchandise, along with ice cream and treats. Surplus funds are used to benefit the Association and may be combined with Recreation Committee funds for this purpose.

Fishing Derby – The Fishing Derby is an annual event sponsored every spring by the Association. Funds in excess of entry fees, donations and other contributions are used to purchase gift prizes and certificates for participants.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES **(continued):**

Fishing Derby (continued) - Generally, the Fishing Derby does not accumulate surplus funds with the intent to donate such funds to the Association. To date, surplus funds have been carried over and spent on the Fishing Derby expenses and prizes for the following year.

Fire Wise Committee – The Fire Wise Committee is a volunteer group assembled to raise wildfire safety awareness in the Community through the development and use of educational programs and materials. The Fire Wise Committee may co-sponsor events with the Recreation Committee and share the funds raised. The Fire Wise Committee did not sponsor any Community events in 2021.

Private Marina

The financial statements include the accounts of the "Private Marina," a group of Association members that lease slips in a portion of the marina designated as the "Private Marina." The Private Marina consists of 169 leased slips.

The docks and slips are located on Association common area property and are owned by the Association. Under the slip lease agreements, access to the docks and slips is restricted to lessees.

Slip lease revenues are used to pay for costs related to dock operations, including ongoing maintenance, repair, and eventual replacement of the private docks and slips, as well as administrative services and certain insurance costs paid to the Association, including an additional 10% to cover overhead related costs. The Private Marina docks and slips have been purchased and built using lease revenues from the members of the Private Marina.

The Private Marina has its own reserve fund for future major repairs or replacement of the docks and slips. The docks and slips in the Private Marina are not funded by the Association's assessments nor are they included in the Association's reserve study.

The separate summarized balance sheet and statement of revenues and expenses included in the Operating Fund for the Private Marina Operations and the Private Marina Replacement Account, as of and for the year ended December 31, 2021, 2021, are presented in the Unaudited Summarized Schedule of Private Marina Activity on page 15 of this report. The Private Marina docks and slips are leased to the members of the Private Marina.

Private Marina docks and slips with a net book value of \$389,800 (original cost of \$720,800 less accumulated depreciation of \$331,000) are excluded from the Association's property and equipment because all capital spending of the Private Marina is funded through slip fees collected from members of the Private Marina, and because access to the Private Marina docks is restricted to the lessees.

Revenue Recognition

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association has evaluated the impact of FASB ASC 606, Revenue from Contracts with Customers, on its financial statements and has determined that the standard does not apply to transactions with its members related to assessments. Assessment revenue is recognized when earned.

User fees and other revenues received from ancillary operations are recognized as the related performance obligations are satisfied. The performance obligations related to the ancillary activities are typically satisfied at a point in time immediately after payment has been received. All revenues are recognized at amounts that are expected to be collected.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES **(continued):**

Cash and Cash Equivalents

Cash and cash equivalents include cash-on-hand, funds on deposit with financial institutions, investments with original maturities of three months or less, and certain liquid money market funds. Operating Fund cash and cash equivalents on December 31, 2021, includes \$140,500 of cash held by the controlled committees and the Private Marina.

The Association maintains bank accounts at various financial institutions. Balances in these accounts may exceed the FDIC federally insured amount of \$250,000. Funds maintained in brokerage accounts are privately insured by the SIPC (Securities Investors Protection Corporation) up to \$250,000.

Investments

As of December 31, 2021, the Association held two certificates of deposit investments, with one for \$100,000 maturing in March 2022, and another for \$200,000 maturing in February 2023. The certificates of deposit are classified as held to maturity investments and accordingly they are recorded at amortized cost. Unrealized gains on the certificates of deposit as of December 31, 2021, were \$7,709.

The Association's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Accounts Receivable and Prepaid Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association derives most of its revenue from dues assessments that are levied against each lot within the development.

Accounts receivable at December 31, 2021, includes amounts due from members whose property may be subject to lien and foreclosure.

The Association's collection policy includes, among other things, assessing a late charge and interest, and filing a lien and assessing a lien fee on payments not received within the allowable time periods. However, during 2021 the Board suspended all late fees and interest charges until January 1, 2022. The Association has the right to suspend certain membership rights and pursue collection through foreclosure action.

An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association determines that an account is uncollectible, such as after bankruptcy or foreclosure proceedings.

The allowance for doubtful accounts is an estimate based on review of delinquent accounts receivable, historical collection activities, and existing economic conditions.

Prepaid assessments represent amounts for the 2022 annual assessment paid in advance by members of the Association.

Property and Equipment

Real property common areas and improvements are not capitalized on the Association's financial statements. Although such property is owned by the Association, it is not severable and saleable at the Board's discretion without member approval.

It is the Association's policy that personal property is capitalized at cost and depreciated over the estimated useful lives of the items purchased using straight line or accelerated methods of depreciation.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

Property and equipment capitalized on the balance sheet at December 31, 2021, consists of:

Furniture and Fixtures	\$	4,450
Machinery and Equipment		87,941
Dock and slips		537,028
Vehicles		<u>170,676</u>
Total Cost		800,095
Less: Accumulated Depreciation		<u>(302,828)</u>
Net Property and Equipment	\$	<u>497,267</u>

Common area property not capitalized on the financial statements includes roads and parking lots, green belt areas, the clubhouse, main marina and west ramp, and the swimming pool.

Common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas.

Capital spending by the Operating Fund during the year ending December 31, 2021, was \$12,436, and was primarily to construct steps in the main marina. The Replacement Fund did not transfer any assets to the Operating Fund during 2021.

Lines of Business

The Association conducts only one line of business, which is providing management services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates used in the preparation of these financial statements include estimated bad debts and estimates of Replacement Fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from these estimates.

Interest Income

The Association records interest income in the respective Fund holding the investment. All income taxes on interest income and the related income tax liabilities are recorded in the Operating Fund.

Due to/Due from

Interfund amounts due between the Replacement Fund and the Operating Fund as December 31, 2021, are as follows:

Loan for Storm Damage Repairs	\$	100,000
Loan for Deposit on Gate Property purchase		30,000
Crack seal material reimbursement		<u>(29,556)</u>
Net amount due by the Operating Fund to the Replacement Fund	\$	<u>100,444</u>

In May 2021, the Operating Fund borrowed \$300,000 from the Replacement Fund to temporarily fund storm damage repairs. See Note 7 – Storm Damage. As of December 31, 2021, the Operating Fund had repaid \$200,000 of the \$300,000 borrowed.

In April 2021, the Operating Fund borrowed \$30,000 from the Replacement Fund for a deposit on the purchase of the Gate Property. See Note 8 – Gate Property purchase.

In November and December 2021, the Operating Fund incurred a total of \$29,556 in material costs for necessary road crack sealing work to be done prior to a major micro-surfacing project planned for the Spring of 2022. The Replacement Fund will reimburse the Operating Fund for these costs. See Note – 9 Subsequent Events, Repayment of Due to/Due from.

The Association's governing documents require funds to be accumulated for the major repair, maintenance, and replacement of its common areas.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 2 - REPLACEMENT FUND:

Funds accumulated are intended to provide for the cost of future replacement, repairs, and maintenance when it is estimated that such expenditures are necessary. From time-to-time, the Operating Fund may borrow from the Replacement Fund to finance certain projects or other costs. Such loans are repayable within 12 months from the date of the loan.

The Association reviews its replacement funding program as part of the annual budget process. The Replacement Fund is funded quarterly based on the annual budget plan. However, during 2021 all funding was deferred until the fourth quarter pending completion of storm damage repairs and other related matters. In estimating future expenditures, an outside consulting firm was engaged to do a Reserve Study without site visit. The Reserve Study used a pooled funding method that included an inflation factor of 4.5% for 2022, and 2.3% thereafter through 2051. The assessments designated for major repairs and replacements during the year ended December 31, 2021, were \$499,112.

Actual expenditures and inflation may vary from the estimated amounts in the Reserve Study and the variations may be material. In addition, amounts accumulated in the Replacement Fund may not be adequate to meet future needs, including the ability to maintain the Reserve Funding percentage at a level the Board deems acceptable. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

Replacement Fund spending during the year ending December 31, 2021, were as follows:

<u>Component Category</u>	<u>Cost</u>
Road/Slope repairs	\$ 68,002
Gate area – replace air conditioner at Gate house and repair front gate	23,659
Clubhouse – replace pool filters	<u>1,702</u>
Total Reserve Expenses	<u>\$ 93,363</u>

NOTE 3 - INCOME TAXES:

The Association qualifies as a tax-exempt Homeowners Association for all income and expenses related to its exempt function purpose of the acquisition, construction, management, maintenance, and care of Association property.

The net non-exempt income from interest and other non-exempt activities is taxed at 30% by the Federal Government based upon the Association's election to file Form 1120-H.

For California State income tax purposes, the Association is taxed on all net income from nonmember activities. Net member income or losses are not subject to taxation. The tax rate for Association net taxable income is 8.84%.

The Association's provision for income taxes for the year ended December 31, 2021, included \$10,535 in prepaid tax and an expense of \$1,099.

The Association's policy is to record tax interest expense or penalties in operating expenses. For the year ended December 31, 2021, no amount of interest or penalties were accrued.

Oak Shores Community Association's federal and state tax returns are open for examination for the years 2019, 2020, and 2021.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 3 - INCOME TAXES, (continued):

The Association evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America.

As of December 31, 2021, the Association does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe there are any unrealized tax benefits that would either increase or decrease within the next year.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Association earns revenues from ancillary services including home rental and transfer fees paid by owners, building rental income paid by Cal Fire, watercraft and campground fees paid by guests and visitors, lease fees paid by the Private Marina slip holders, and Committee revenues from ice, soda, and merchandise sales. Revenues from ancillary services are generally recognized at the point in time when goods are delivered, or services are rendered. Revenue generated from ancillary services totaled \$240,600 in fiscal 2021. The following economic factors affect the nature, amount, timing, and uncertainty of the Association's revenue and cash flows as indicated:

These types of services are provided to members and nonmembers located within the United States. Goods and services contracts tend to be short-term (i.e. less than one year) in duration.

The Association typically satisfies its contractual performance obligations at the point in time when goods are delivered, or services are rendered. Payments for goods sold by the Association are typically received immediately upon receipt of the goods by members. In most cases, the goods that are transferred to the members are purchased by the Association for resale. The services provided by the Association are performed by employees of the Association. In estimating a contract's transaction price, the Association considers all the information (historical, current, and forecasted) that is reasonable and available to it and identifies a reasonable number of possible consideration amounts.

The information that the Association uses to determine transaction price is similar to the information that the Association's management uses in establishing the prices of goods and services. The Association allocates the transaction price to each item sold based upon input methods to include resources consumed, labor hours expended, and other costs incurred.

NOTE 5 - SIGNIFICANT GROUP CONCENTRATIONS of CREDIT RISK:

The Association maintains demand checking and savings accounts at various banks. At December 31, 2021, the aggregate balance of these accounts exceeds the federally insured limits (FDIC insurance) by \$237,150 at one bank and by \$1,206,786 at a second bank.

Financial instruments that potentially subject the Association to credit risk consist principally of cash and cash equivalents.

NOTE 7 – STORM DAMAGE:

In late January 2021, a winter storm dropped a large amount of rain in the Lake Nacimiento area causing significant damage to Association roads. Total repair costs incurred were \$336,250. In May 2021, the Board issued an Operating Fund Special Assessment totaling \$297,850 (\$350 per lot) to help pay for the cost of the damages. The Special Assessment was due in two equal installments on June 30 and July 31, 2021. As of December 31, 2021, substantially all Special Assessment amounts have been collected. Costs incurred in-excess of the Special Assessment totaled \$38,400 during the year ended December 31, 2021, and were charged to the Road/Slope Repairs component in the Replacement Fund.

In September 2021, an equipment rental company filed a mechanic's lien on Association property for non-payment by the general contractor the Association used to repair the storm damage. The Association timely paid all amounts to the general contractor, including amounts related to equipment rentals, as the work was performed and completed in the first half of 2021. The lien was released in March 2022, See Note 9 – Subsequent Events, Mechanics lien release.

See Auditors' Report

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 8 – GATE PROPERTY PURCHASE:

Purchase of Gate Property

In April 2021, the Association entered into an agreement to purchase the 33-acre parcel of land that includes the Main Entrance Gate off Lynch Canyon Road (the “Gate Property”) for \$595,000. The Association deposited \$30,000 with an escrow company at the time it entered into the purchase agreement. As of December 31, 2021, this deposit is classified as Deposit for Gate Property Purchase on the accompanying balance sheet.

The Association intends to repair and refurbish the existing buildings and water system on the Gate Property. It is estimated that the total cost of purchase, repairs, and refurbishments will approximate \$640,000, which will be borrowed from the Replacement Fund.

To repay the borrowings, the Association’s approved 2022 Operating Budget includes \$500,000 in operating assessments that otherwise would have gone to the Replacement Fund. In addition, the Board approved a Special Operating Assessment of \$125,000 for 2022. The combined \$625,000 increase in Operating assessments, along with approximately \$15,000 in carryover funds, will be used to repay the \$640,000 loan from the Replacement Fund within the required 12-month period. For years 2023 to 2026, the Board intends to maintain the special assessment increase of \$125,000 per year to replenish the Replacement Fund for amounts that would have otherwise been contributed in 2022.

NOTE 9 – SUBSEQUENT EVENTS:

Closing of Escrow for the Gate Property Purchase

On March 2, 2022, escrow closed, and the purchase of the Gate Property was completed. Under the final purchase agreement, the Association was granted credits totaling approximately \$21,000 for a new water system and for certain necessary building repairs. These credits reduced the purchase price to \$576,000, including approximately \$2,000 in escrow, title, and other fees. The Operating Fund borrowed \$546,000 from the Replacement Fund to

complete the purchase along with the \$30,000 deposit made April 2021. After necessary building repairs and refurbishment, and completion of a new water system, it is anticipated the total cash costs of the Gate Property will be approximately \$640,000.

Easements granted

The Gate Property was purchased from a family trust (the Seller’s Trust) that owns four other parcels along the Main Road entrance into Oak Shores. At the time of closing, the Association entered into a separate easement agreement (the Agreement) providing for maintenance free access across the Gate Property to the four other parcels owned by the Seller’s Trust. These access easements run with title to the properties and are limited to the intensity of existing use. In addition, the Agreement also formalized a long-standing arrangement that provided personal easements to the West Ramp for members of the Seller’s family and their heirs. These personal easements do not run with the title to the four other parcels owned by the Seller’s Trust.

Repayment of Due to/Due from

In March 2022, the Operating Fund repaid the Replacement Fund for the \$100,000 Storm Damage loan and for the \$30,000 Gate Property deposit loan. Also in March 2022, the Replacement Fund reimbursed the Operating Fund for \$21,504 in crack seal materials.

Insurance recovery

In February and March 2022, the Association received payments totaling \$16,754 on an insurance claim to repair the front gate after it was vandalized in August 2021. The recovery will be recorded as Replacement Fund income in 2022.

Mechanics lien release

In March 2022, the general contractor settled the amounts due to the equipment rental company and the mechanics lien filed in September 2021, was released.

The financial statements were issued on and subsequent events were evaluated through April 26, 2022.

Oak Shores Community Association
Supplemental Information on Replacement Fund Balances
For the Year Ended December 31, 2021
(unaudited)

The Association's governing documents require funds to be accumulated for the maintenance and future repair and replacement of its common areas. Once every three years the Board of Directors and management are required by statute to perform a formal study that includes an on-site analysis to assess the condition of all common area components and determine current replacement costs and remaining lives of these components. This is based on published data, contractor or engineering estimates, and prior experience. In addition, the consultant updates the estimates for projected inflation and interest rates earned on investments and cash and cash equivalents used to determine the funding status. Once every three years an outside consultant must perform a site visit to complete our reserve study. The most recent site visit by an outside consultant was in 2020, and the next site visit will be in 2023. On November 20, 2021, an outside consultant completed and issued an updated Reserve Study without a site visit. The updated Reserve Study covers the 30-year projection period starting January 1, 2022.

The following table presents the significant components of common property and the funding status based on the Reserve Study report for January 1, 2022:

<u>Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Cost</u>
Campground and Mini-Golf Course	0 – 22 years	\$ 188,400
Clubhouse	0 – 22 years	306,400
Community Entrance	0 – 14 years	107,500
Maintenance Shop	0 – 11 years	61,950
Marina	1 – 22 years	991,050
Painting	0 – 2 years	62,350
Pool Area	0 – 4 years	94,500
Roads - Overlay	1 – 17 years	4,123,650
Roads – Micro-surfacing	0 – 8 years	1,103,900
Roads - Other	1 -17 years	219,000
Roofing	2 – 24 years	97,000
Security and Fencing	0 – 12 years	100,850
Vehicles	0 – 7 years	289,650
		<u>\$ 7,746,200</u>
Replacement Fund Balance as of December 31, 2021		<u>\$ 2,977,434</u>
Ideal Balance (100% funded) as of January 1, 2022		<u>\$ 4,810,129</u>

Replacement costs for the Private Marina docks and slips are exclusively funded by slip lease fees from members of the Private Marina and are not included in the information above.

Oak Shores Community Association
Schedule of Revenues and Expenses - Budget And Actual
For the Year Ended December 31, 2021
(Unaudited)

	Actual	Unaudited	
		Budget	Variance
OPERATING FUND			
<u>REVENUES</u>			
Regular Assessments	\$ 1,216,504	\$ 1,216,504	\$ -
Special Assessment for Storm Damage Repairs	297,850	-	297,850
Interest Income	96	350	(254)
Rubbish Fee Income	218,223	217,900	323
Owner Rental Fees	40,975	40,500	475
Fire Department Rental Fees	8,152	9,000	(848)
Watercraft Fees	27,020	45,000	(17,980)
Owner Fee Income	16,592	14,500	2,092
Committee Revenues	35,283	20,000	15,283
Lease Fees from Private Marina	67,196	67,150	46
Net Gain on Sale of Foreclose Property	9,918	-	9,918
Other Income	45,453	40,000	5,453
Total Revenues	<u>1,983,262</u>	<u>1,670,904</u>	<u>312,358</u>
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	102,252	103,159	907
Legal Fees	50,029	25,000	(25,029)
Outside Services	51,051	70,000	18,949
Reduction in Allowance for Bad Debts	(1,700)	2,500	4,200
Auditing and Accounting	9,000	9,000	-
Income Taxes	1,099	16,095	14,996
Printing and Reproduction	5,228	12,300	7,072
Other General and Administrative	68,679	89,019	20,340
<u>Payroll and Related Costs</u>			
Salaries	613,340	586,540	(26,800)
Payroll Taxes	50,474	58,000	7,526
Insurance and Other Costs	88,654	109,790	21,136
<u>Utilities</u>			
Rubbish Service	218,912	222,400	3,488
Water and Fire Hydrants	192,489	192,500	11
Electricity and Propane	33,913	29,500	(4,413)
Telephone and Other	20,008	18,500	(1,508)
Depreciation	41,609	51,000	9,391
Committee Expenses	31,256	15,167	(16,089)
Private Marina Expense	39,821	60,450	20,629
Transportation Costs	27,430	39,430	12,000
Maintenance and Repairs	63,208	59,500	(3,708)
Capital Spending	12,436	5,000	(7,436)
Storm Damage Repairs	297,850	-	(297,850)
Total Expenses	<u>2,017,038</u>	<u>1,774,850</u>	<u>(242,188)</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ (33,776)</u>	<u>\$ (103,946)</u>	<u>\$ 70,170</u>
REPLACEMENT FUND			
<u>REVENUES</u>			
Assessments	\$ 499,112	\$ 499,112	\$ -
Interest Income	9,618	22,120	(12,502)
Other Income	9,990	7,000	2,990
Total Revenues	<u>518,720</u>	<u>528,232</u>	<u>(9,512)</u>
<u>EXPENSES</u>			
Major Repairs and Replacements	93,363	616,550	523,187
Less: Interfund Transfer of Capitalized Property and Equipment	-	(181,350)	(181,350)
Total Expenses	<u>93,363</u>	<u>435,200</u>	<u>341,837</u>
Excess of Revenues Over Expenses	<u>\$ 425,357</u>	<u>\$ 93,032</u>	<u>\$ (332,325)</u>

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association
Summarized Schedule of Private Marina Activity
As of and For the Year Ended December 31, 2021

	Private Marina	
	Operations	Replacements
<u>Balance Sheets</u>		
Cash and Cash Equivalents	\$ 4,721	\$ 86,745
Other assets	7,995	-
Total Assets	<u>\$ 12,716</u>	<u>\$ 86,745</u>
Accounts Payable	\$ -	\$ -
Other Liabilities	-	-
Total Liabilities	-	-
Fund Balances	12,716	86,745
Total Liabilities and Fund Balance	<u>\$ 12,716</u>	<u>\$ 86,745</u>
<u>Revenues and Expenses:</u>		
Total Revenues	\$ 67,155	\$ 41
Total Expenses	40,179	-
Excess (Deficiency) of Revenues Over Expenses	<u>26,976</u>	<u>41</u>
Fund Balances, Beginning of Year	4,021	68,423
Transfer	(18,281)	18,281
Fund Balances, End of Year	<u>\$ 12,716</u>	<u>\$ 86,745</u>